

MAY 24 2001

STATE OF ARIZONA
DEPARTMENT OF INSURANCE

DEPT. OF INSURANCE
BY

In the Matter of:

**UNITED SECURITY LIFE INSURANCE COMPANY
OF ILLINOIS,**

NAIC #81108;

Respondent.

) Docket No. 01A-139-INS
)

) **CONSENT ORDER**
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Examiners for the Department of Insurance (the "Department") conducted a market conduct examination of United Security Life Insurance Company of Illinois ("United Security"). The Report of the Examination of the Market Conduct Affairs of United Security, dated June 15, 2000 alleges that United Security has violated A.R.S. §§20-443, 20-448, 20-448.01, 20-461, 20-462, 20-466.03, 20-2104, 20-2106, 20-2110, 20-2533, and A.A.C. R20-6-211, R20-6-215, R20-6-801, R20-6-1203.

United Security wishes to resolve this matter without formal proceedings, admits that the following Findings of Fact are true, and consents to the entry of the following Conclusions of Law and Order.

FINDINGS OF FACT

1. United Security is authorized to transact life and disability insurance pursuant to a Certificate of Authority issued by the Director.

2. The Examiners were authorized by the Director to conduct a market conduct examination of United Security. The on-site examination covered the time period from January 1, 1999 through December 31, 1999 for claims, and January 1, 1998 through December 31, 1999 for all other aspects of the Company's operations and was concluded on June 15, 2000. Based on the findings the

1 Examiners prepared the "Report of Examination of the Market Conduct Affairs of
2 United Security Life Insurance Company of Illinois" dated June 15, 2000.

3 3. The Examiners reviewed 32 of 32 Arizona Department of Insurance
4 complaints and six of six complaints received by the Company during the time frame of
5 the examination and found as follows:

6 a. United Security failed to provide four complainants with a
7 Summary of Rights, in the event of an adverse underwriting decision.

8 b. United Security failed to respond to three inquiries from the
9 Department of Insurance, in respect to a claim, within 15 working days after receipt of
10 the inquiry.

11 c. United Security failed to acknowledge pertinent communications
12 from two first party claimants, within ten working days, when the communications
13 reasonably suggested that a response was expected.

14 4. The Examiners reviewed all of the Company's forms used in Arizona during
15 the time frame of the examination and found as follows:

16 a. United Security used an HIV-related test consent form that was not
17 filed nor approved by the Director.

18 b. United Security used a claim form that failed to contain a compliant
19 fraud warning notice.

20 c. United Security used an Information Disclosure Authorization form
21 that failed to advise that the individual is entitled to a copy of the authorization form.

22 d. United Security failed to use a Notice of Insurance Information
23 Practices form that included all the required disclosures.

24 5. The Examiners reviewed 490 of 7,487 insurance contracts issued, declined,
25 withdrawn, closed or not taken during the time frame of the examination and found as

1 follows:

2 a. United Security failed to provide 182 applicants with a Summary of
3 Rights, in the event of an adverse underwriting decision.

4 b. United Security failed to respond, within 21 business days, to two
5 applicants' requests for information regarding an adverse underwriting decision.

6 c. United Security failed to provide 100 applicants with a Policy
7 Summary at or prior to the delivery of the policy.

8 d. United Security declined two life insurance applications because
9 the applicants were unable to speak English.

10 e. United Security failed to provide 29 life insurance applicants with a
11 specific reason for the decision, in the event of an adverse underwriting decision.

12 f. United Security refused to consider an application for life
13 insurance on the basis of developmental delay.

14 g. United Security issued contracts to 35 individuals at fixed rates
15 that were not available to other individuals of the same class and risk.

16 h. United Security included an exclusion endorsement, on one issued
17 policy, for a condition for which the insured person had previously had tests, and the
18 condition was found not to exist.

19 i. United Security declined one application on the basis of a genetic
20 condition that was not part of the applicant's medical condition and history, claims
21 experience or actuarial projection.

22 6. The Examiners reviewed 394 of 47,913 medical claims processed by the
23 Company during the time frame of the examination and found as follows:

24 a. United Security failed to acknowledge 186 first party claimants
25 within ten working days after receiving notice of claim.

1 b. United Security failed to notify 98 first party claimants of the
2 acceptance or denial of the claim within 15 working days of receipt of an acceptable
3 proof of loss.

4 c. United Security failed to send 29 first party claimants a letter
5 setting forth the reasons additional time was needed for investigation forty-five days
6 from the date of the initial notification and every forty-five days thereafter.

7 d. United Security failed to complete the investigation of 50 claims
8 within 30 days after notification of the claim.

9 e. United Security failed to pay interest on 13 claims that were not
10 paid within 30 days of receipt of an acceptable proof of loss.

11 f. United Security failed to include a copy of the denial letters in the
12 files of 216 denied claims.

13 g. United Security failed to provide two insureds with a Summary of
14 Rights, in the event of an adverse underwriting decision.

15 7. The Examiners reviewed seven of seven life insurance replacements that
16 occurred during the time frame of the examination, and found that United Security
17 failed to:

18 a. Require from the agent the Notice Regarding Replacement of Life
19 Insurance in a form as required by Exhibit A of A.A.C. R20-6-215 in six files.

20 b. Require from the agent a copy of all sales proposals used in the
21 presentation in six files.

22 c. Send to the existing insurer a Notice Regarding Replacement of
23 Life Insurance within three working days of the date the application was received in six
24 files.

25 d. Maintain copies of the Notice Regarding Replacement of Life

1 Insurance, the Policy Summary, and all sales proposals used in six files.

2 e. Delay the issue of two policies for 20 days since the Company did
3 not offer a 20-day free look period.

4 8. The Examiners reviewed 25 of 25 life insurance contracts rescinded
5 during the time frame of the examination and found that United Security rescinded two
6 life insurance policies, denied the death claims, and persuaded the claimants to
7 surrender their rights to claim proceeds under the contract, without sufficient evidence
8 to warrant the rescission.

9 The first claimant (18534EZ) was alleged to have misrepresented his weight on
10 his application for insurance. The Company contends that they are allowed to apply
11 post-claim underwriting principles, and rescind the policy. The Examiners found that
12 the Company made no effort to validate the applicant's weight during the underwriting
13 process.

14 The second claimant (16360EZ) was alleged to have made material
15 misrepresentations on the policy application, because a biopsy was taken of her lung
16 approximately one week prior to applying to the Company for life insurance. However,
17 no results were revealed to her until after the policy had been issued. The Examiners
18 found that the Company made no effort to confirm the applicant's statements on the
19 application during the underwriting process.

20 9. The Examiners reviewed United Security's appeal process, policies, and
21 procedures and found that the Company failed to include a separate appeal
22 information packet, approved by the Director, with all health insurance policies at the
23 time of issue.

24 10. United Security's failure to pay interest on claims not paid within 30 days
25 of receipt of an acceptable proof of loss resulted in underpayments to 13 insureds

1 totaling \$625.53, plus additional interest of \$237.88.

2 **CONCLUSIONS OF LAW**

3 1. United Security violated A.R.S. §20-2110(A) by failing to provide the
4 applicant with a Summary of Rights and the specific reason for the adverse
5 underwriting decision or that the specific reason was available upon request.

6 2. United Security violated A.A.C. R20-6-801(E)(2) by failing to respond to an
7 inquiry from the Department of Insurance, regarding a claim, within 15 working days
8 after receipt of the inquiry.

9 3. United Security violated A.A.C. R20-6-801(E)(3) by failing to acknowledge
10 pertinent communications from first party claimants, within ten working days, when the
11 communications reasonably suggested that a response was expected.

12 4. United Security violated A.R.S. §20-448.01(B) and A.A.C. R20-6-1203(C)
13 by using an HIV-related test consent form that was not filed nor approved by the
14 Director.

15 5. United Security violated A.R.S. §20-2110(B) by failing to respond, within
16 21 business days, to an applicant's request for information regarding an adverse
17 underwriting decision.

18 6. United Security violated A.R.S. §20-2106 by failing to include all the
19 required disclosures in the Information Disclosure Authorization section of its
20 applications and claim forms.

21 7. United Security violated A.A.C. R20-6-801(E)(1) and A.R.S. §20-461(A)(2)
22 by failing to acknowledge the receipt of a claim within ten working days.

23 8. United Security violated A.A.C. R20-6-801(G)(1)(a) and A.R.S. §20-
24 461(A)(5) by failing to notify the first party claimant of the acceptance or denial of the
25 claim within 15 working days after receipt of an acceptable proof of loss, and providing

1 claim files that did not contain a copy of the denial letters.

2 9. United Security violated A.A.C. R20-6-801(G)(1)(b) and A.R.S. §20-
3 461(A)(3) by failing to advise first party claimants, within 15 working days after receipt
4 of an acceptable proof of loss, of the reasons why more time was needed to determine
5 if the claim would be accepted or denied; and by failing to send the first party claimant
6 a letter setting forth the reasons additional time was needed for investigation 45 days
7 from the date of the initial notification and every 45 days thereafter.

8 10. United Security violated A.A.C. R20-6-801(F) and A.R.S. §20-461(A)(3) by
9 failing to complete the investigation of a claim within 30 days after notification of the
10 claim.

11 11. United Security violated A.R.S. §20-448(B) by discriminating between
12 individuals of the same rate class and risk in the benefits payable or in any of the terms
13 or conditions of the contract.

14 12. United Security violated A.R.S. §20-462(A) by failing to pay interest on
15 claims not paid within 30 days of receipt of an acceptable proof of loss.

16 13. United Security violated A.R.S. §20-466.03 by failing to include a fraud
17 warning statement, in at least twelve-point type, on all claim forms.

18 14. United Security violated A.R.S. § 20-2104(A)(1) by failing to provide a
19 Notice of Insurance Information Practices, when personal information was collected on
20 an application or claim form.

21 15. United Security violated A.A.C. R20-6-211(E)(1) by failing to provide the
22 applicant a Policy Summary at or prior to the delivery of the policy.

23 16. United Security violated A.A.C. R20-6-215(F)(3)(a), as the replacing
24 insurer, by failing to require from the agent a Notice Regarding Replacement of Life
25 Insurance, signed by the applicant, and a copy of all sales proposals used for

1 presentation to the applicant.

2 17. United Security violated A.A.C. R20-6-215(F)(3)(b), as the replacing
3 insurer, by failing to furnish to the applicant a Policy Summary at or prior to the policy
4 delivery.

5 18. United Security violated A.A.C. R20-6-215(F)(3)(c), as the replacing
6 insurer, by failing to send to the existing insurer a Notice Regarding Replacement of
7 Life Insurance within three working days of the date the application was received.

8 19. United Security violated A.A.C. R20-6-215(F)(3)(d), as the replacing
9 insurer, by failing to delay the issue of the policy for 20 days, since the Company did
10 not offer a 20-day free look period.

11 20. United Security violated A.A.C. R20-6-215(F)(3)(f), as the replacing insurer,
12 by failing to maintain copies of the Notice Regarding Replacement of Life Insurance,
13 the Policy Summary, and all sales proposals used.

14 21. United Security violated A.R.S. §20-448(A) by discriminating in its
15 underwriting process by declining applications because the applicants were unable to
16 speak English.

17 22. United Security violated A.R.S. §20-448(D) by refusing to consider an
18 application for life insurance on the basis of developmental delay.

19 23. United Security violated A.R.S. § 20-443(5) by persuading a life insurance
20 beneficiary to surrender rights to receive proceeds under the contract, without sufficient
21 evidence to warrant the rescission.

22 24. United Security violated A.R.S. §20-1135 by including an exclusion
23 endorsement, on an issued policy, for a condition for which the insured person had
24 previously had tests, and the condition was found not to exist.

25 25. United Security violated A.R.S. §20-448(E) by declining an application on

1 the basis of a genetic condition that was not part of the applicant's medical condition
2 and history, claims experience, or actuarial projection.

3 26. United Security violated A.R.S. §20-2533(C) by failing to include a separate
4 appeal information packet, approved by the Director, with all health insurance policies
5 at the time of issue.

6 27. Grounds exist for the entry of the following Order, in accordance with
7 A.R.S. §§20-220, 20-456 and 20-2117.

8 **ORDER**

9 **IT IS ORDERED THAT:**

10 1. United Security shall cease and desist from:

11 a. Failing to provide applicants with a Summary of Rights in the event of
12 an adverse underwriting decision.

13 b. Failing to provide applicants with the specific reason for an adverse
14 underwriting decision in writing, or to advise the person that upon written request the
15 person may receive the specific reason in writing.

16 c. Failing to respond to inquiries from the Department of Insurance, in
17 respect to claims, within 15 working days after receipt of the inquiry.

18 d. Failing to acknowledge the receipt of pertinent communications
19 regarding claims within ten working days.

20 e. Using an HIV-related test consent form that has not been filed and
21 approved by the Director.

22 f. Failing to respond, within 21 business days, to an applicant's request
23 for information regarding an adverse underwriting decision.

24 g. Using an Information Disclosure Authorization that does not include all
25 the required disclosures.

- 1 h. Failing to acknowledge the receipt of a claim within ten working days.
- 2 i. Failing to accept or deny claims within 15 working days after receipt of
- 3 proof of loss.
- 4 j. Failing to include in claim files copies of claim denial letters.
- 5 k. Failing to advise the claimant, within 15 working days after receipt of
- 6 proof of loss, of the reasons why more time is needed to determine if the claim would
- 7 be accepted or denied.
- 8 l. Failing to send the claimant a letter setting forth the reasons additional
- 9 time is needed for investigation forty-five days from the date of the initial notification
- 10 and every forty-five days thereafter.
- 11 m. Failing to complete investigation of a claim within 30 days after
- 12 notification of the claim.
- 13 n. Discriminating between individuals of the same rate class and risk in
- 14 the benefits payable or in any of the terms or conditions of the contract.
- 15 o. Failing to pay interest on claims that were not paid within 30 days
- 16 after the receipt of an acceptable proof of loss.
- 17 p. Failing to include a fraud warning statement, in at least twelve-point
- 18 type, on all claim forms.
- 19 q. Failing to provide an applicant with a Notice of Insurance Information
- 20 Practices, when personal information is collected on the application.
- 21 r. Failing to provide a Policy Summary at or prior to delivery of a life
- 22 insurance policy.
- 23 s. Failing, as the replacing insurer, to require from the agent a Notice
- 24 Regarding Replacement of Life Insurance.
- 25 t. Failing, as the replacing insurer, to require from the agent a copy of all

1 sales proposals used for presentation to the applicant.

2 u. Failing, as the replacing insurer, to furnish to the applicant a Policy
3 Summary at or prior to the policy delivery.

4 v. Failing, as the replacing insurer, to send to the existing insurer a
5 Notice Regarding Replacement of Life Insurance within three working days of the date
6 the application is received.

7 w. Failing, as the replacing insurer, to delay the issue of the policy for
8 20 days.

9 x. Failing, as the replacing insurer, to maintain copies of the Notice
10 Regarding Replacement of Life Insurance, the Policy Summary, and all sales
11 proposals used.

12 y. Discriminating in the underwriting process by declining applications
13 because the applicants are unable to speak English.

14 z. Refusing to consider an application for life insurance on the basis of
15 developmental delay.

16 aa. Allowing an exclusion endorsement, on an issued policy, for a
17 condition for which the insured person had previously had tests, and the condition was
18 found not to exist.

19 bb. Declining an application on the basis of a genetic condition that was
20 not part of the applicant's medical condition and history, and claims experience or
21 actuarial projection.

22 cc. Failing to include a separate appeal information packet, approved by
23 the Director, with all health insurance policies at the time of issue.

24 2. Within 90 days of the filed date of this Order, United Security shall submit
25 to the Arizona Department of Insurance, for approval, evidence that corrections have

1 been implemented and communicated to the appropriate personnel regarding all of the
2 items listed in Paragraph one of the Order section of this Consent Order. Evidence of
3 corrective action and communication thereof includes, but is not limited to, memos,
4 bulletins, E-mails, correspondence, procedures manuals, print screens, and training
5 materials.

6 3. Within 90 days of the filed date of this Order, United Security shall pay the
7 face value of the rescinded life insurance policies 18534EZ and 16360EZ to the
8 beneficiaries.

9 4. Each payment made in accordance with Item 3 above shall be
10 accompanied by a letter in a form previously approved by the Director. A list of
11 payments, giving the name and address of each party paid, the amount of the
12 payment, and the date of payment, shall be provided to the Department within 90 days
13 of the filed date of this Order.

14 5. The Department shall be permitted, through authorized representatives, to
15 verify that United Security has complied with all provisions of this Order.

16 6. United Security shall pay a civil penalty of \$30,000.00 to the Director for
17 deposit in the State General Fund in accordance with A.R.S. §20-220(B). The civil
18 penalty shall be provided to the Market Conduct Examinations Section of the
19 Department prior to the filing of this Order.

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7. The Report of Examination of the Market Conduct Affairs of United Security as of June 15, 2000, including the letter submitted in response to the Report of Examination, shall be filed with the Department after the Director has filed this Order.

DATED at Phoenix, Arizona this 23rd day of May, 2001.

Charles R. Cohen
Director of Insurance

CONSENT TO ORDER

1. United Security Life Insurance Company of Illinois has reviewed the foregoing Order.

2. United Security Life Insurance Company of Illinois admits the jurisdiction of the Director of Insurance, State of Arizona, admits the foregoing Findings of Fact, and consents to the entry of the Conclusions of Law and Order.

3. United Security Life Insurance Company of Illinois is aware of the right to a hearing, at which it may be represented by counsel, present evidence, and cross-examine witnesses. United Security Life Insurance Company of Illinois irrevocably waives the right to such notice and hearing and to any court appeals related to this Order.

4. United Security Life Insurance Company of Illinois states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Consent Order and that it has entered into this Consent Order voluntarily.

5. United Security Life Insurance Company of Illinois acknowledges that the acceptance of this Order by the Director of the Arizona Department of Insurance is solely for the purpose of settling this matter and does not preclude any other agency or officer of this state or its subdivisions or any other person from instituting proceedings, whether civil, criminal, or administrative, as may be appropriate now or in the future.

6. Robert G. Dial, who holds the office of Assistant Secretary of United Security Life Insurance Company of Illinois is authorized to enter into this Order for it and on its behalf.

UNITED SECURITY LIFE INSURANCE COMPANY OF ILLINOIS

May 18, 2001
Date

By: 

1 COPY of the foregoing mailed/delivered

2 this 24th day of May, 2001, to:

3 Sarah Begley

4 Deputy Director

5 Mary Butterfield

6 Assistant Director

7 Consumer Affairs Division

8 Paul J. Hogan

9 Chief Market Conduct Examiner

10 Market Conduct Section

11 Deloris E. Williamson

12 Assistant Director

13 Rates & Regulations Division

14 Steve Ferguson

15 Assistant Director

16 Financial Affairs Division

17 Alexandra Shafer

18 Assistant Director

19 Life and Health Division

20 Nancy House

21 Chief Financial Examiner

22 Terry L. Cooper

23 Fraud Unit Chief

24 DEPARTMENT OF INSURANCE

25 2910 North 44th Street, Second Floor

Phoenix, AZ 85018

Mr. Robert G. Dial, Director of Administration

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